

Message Text

CONFIDENTIAL

PAGE 01 EC BRU 02429 01 OF 02 101741Z

47

ACTION EUR-12

INFO OCT-01 IO-11 ISO-00 AGR-05 AID-05 CEA-01 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02

STR-04 TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 EA-07

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R 101619Z MAR 76

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 718

INFO USDEL MTN GENEVA

C O N F I D E N T I A L SECTION 1 OF 2 EC BRUSSELS 02429

E.O. 11652: GDS

TAGS: EEC, EEAGR, ERTD

SUBJECT: CALL ON EC COMMISSIONER LARDINOIS

1. SUMMARY. MY INITIAL CONVERSATION WITH LARDINOIS ON AGRICULTURE WAS WIDE-RANGING AND AT TIMES BLUNT. HE STRESSED THE SERIOUSNESS OF EUROPEAN AND WORLDWIDE DAIRY PROBLEMS. WE CONFRONTED OUR DIFFERENT PERCEPTIONS ON SOYBEAN ISSUES AND NON-FAT DRY MILK DECISION AND DISCUSSED POSSIBLE INTERNATIONAL SUGAR AGREEMENT. IN IMPRECISE TERMS HE ADVANCED CONCEPT OF DEAL FOR TOKYO-ROUND ON DAIRY AND UNSPECIFIED OTHER PRODUCTS. HE ALSO MENTIONED HIS INTENT TO NEGOTIATE LONG-TERM SALES CONTRACTS IN MIDDLE EAST. END SUMMARY.

2. LARDINOIS, EC COMMISSIONER FOR AGRICULTURE, IS A JOLLY FELLOW WITH AN AMUSING WAY ABOUT HIM. AT MY INITIAL CALL ON HIM HE OPENED CONVERSATION BY DEMANDING TO KNOW WHAT THE US AND I PERSONALLY WERE GOING TO DO TO REDRESS THE VAST IMBALANCE IN US-EC AGRICULTURAL TRADE. THIS WAS FOLLOWED BY THRUSTS AT OUR AGRICULTURAL PROTECTIONISM, SECTION 22, DAIRY, AND COUNTERVAILING ON CHEESE, ETC., ALL DELIVERED IN WHAT SEEMED TO BE HIGH GOOD HUMOR. I
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 EC BRU 02429 01 OF 02 101741Z

COUNTERED WITH REMARKS TO EFFECT THAT BASIC IMBALANCE

WAS GOD-GIVEN BUT THAT IN ANY CASE PROBLEM WAS HOW TO PROMOTE TRADE LIBERALIZATION. ONE SHOULD NOT SEEK TO REDUCT IMBALANCE BY RESTRICTIVE MEASURES, E.G., NON-FAT DRY MILK, BUT RATHER BY EXERCISING IMAGINATION IN TOKYO-ROUND NEGOTIATIONS. RESPONSE WAS ROUGHLY THAT HE, LARDINOIS, AND EARL BUTZ HAD AGREED NOTHING WOULD HAPPEN ON AGRICULTURE IN GENEVA THIS YEAR, THAT HE FOR HIS PART THOUGHT THAT WHOEVER WAS NEXT SECRETARY OF AGRICULTURE MIGHT SEE MORE ADVANTAGES IN COMMUNITY'S ORDERLY MARKETING PHILOSOPHY THAN SECRETARY BUTZ. THIS WOULD BE PARTICULARLY TRUE, HE SAID, IF SENATOR HUMPHREY WERE NEXT US PRESIDENT. THEN HE ADDED THAT AT ONE POINT HE HAD DISCUSSED WITH SECRETARY BUTZ AGRICULTURE DEAL WHERE US WOULD LIBERALIZE ITS DAIRY QUOTAS AND EC WOULD DO SOMETHING ON GRAIN. HOWEVER, HIS EXPERIENCES WITH ADMINISTRATION DURING "CHEESE WAR" HAD MADE IT CLEAR TO HIM THAT PAT HEALEY AND US DAIRY LOBBY WERE A STRONGER FORCE THAN US TRADE NEGOTIATORS.

3. LARDINOIS THEN LAUNCHED INTO LONG DISCOURSE, KERNEL OF WHICH WAS THAT MAJOR WORLD AGRICULTURAL PROBLEM LIES IN DAIRY SECTOR WHERE DISASTER FACES COMMUNITY AND OTHER PRODUCERS. US AS NET IMPORTER HAD SOME LEEWAY. HE WAS TALKING THIS WEEK WITH REPRESENTATIVES OF NEW ZEALAND, CANADIAN, AND AUSTRALIAN DAIRY INTERESTS AND PLANNED BROADEN DISCUSSION TO INVITE PAT HEALEY TO APRIL MEETING HERE ON WORLD DAIRY SITUATION. "MAYBE WE'LL INVITE GOVERNMENTS TOO." (IT CAME OUT LATER IN CONVERSATION THAT COMMISSION ON HIS INSTRUCTION HAS INITIATED DISCUSSIONS WITH EFTA COUNTRIES ON DAIRY SECTOR PROBLEMS WHICH CONCEIVABLY COULD LEAD EFTA COUNTRIES TO WANT TO HAVE ANY AGRICULTURAL DISCUSSIONS BROADENED TO INCLUDE OTHER PRODUCTS.)

4. I INDICATED MY BELIEF THAT POST-ELECTION US AGRICULTURAL POLICY WOULD BE MORE DETERMINED BY STATE OF WORLD PRODUCTION/CONSUMPTION BALANCE AND RESERVE LEVELS THAN BY PERSONALITIES. BUT, IN ANY CASE, I ASKED AGAIN WHAT DID LARDINOIS THINK COULD BE DONE TO LIBERALIZE AGRICULTURAL TRADE. HE REPLIED IN LONG RUN WE COULD MAKE FOLLOWING

CONFIDENTIAL

PAGE 03 EC BRU 02429 01 OF 02 101741Z

DEAL: EC WOULD INDICATE ACCEPTANCE OF ITS PRESENT SHARE OF US DAIRY MARKET; US WOULD OPEN ITS DOORS TO NEW ZEALAND BUTTER; THEN EC WOULD BE FREE OF NEW ZEALAND BUTTER AND EC WOULD PAY FOR THIS WITH CONCESSIONS ON SOME OTHER AGRICULTURAL PRODUCTS. "SOME DEAL," I MUTTERED. LARDINOIS COUNTERED WE SHOULD THINK ABOUT IT SINCE NEW ZEALAND BUTTER WAS COMPETITIVE AND NO SUBSIDY PROBLEMS WOULD ARISE. CONCEIVABLY THIS COULD MEAN SOME

WILLINGNESS ON HIS PART TO BACK OFF EC SUBSIDIES INTO US MARKET, ALTHOUGH HE CERTAINLY DIDN'T SAY SO NOR DID HE RESPOND TO INVITATION TO EXPAND ON WHAT THESE OTHER EC AGRICULTURAL CONCESSIONS MIGHT BE.

5. CONTINUING WITH DAIRY PROBLEMS, LARDINOIS TOLD ME OUR "DIRT-CHEAP SOYBEANS" WERE A MAJOR CAUSE OF EUROPEAN DAIRY SURPLUSES. THE BEANS ARE SO CHEAP AND SO HIGH IN PROTEIN THAT WHEN EUROPEANS FEED THEM, COWS PRODUCE AT LEAST 10 PERCENT MORE MILK THAN THEY WOULD ON OTHER FEEDS. THREE TIMES THE COMMUNITY HAD PROPOSED TO TAX SOYBEANS COMING INTO EUROPE BUT HE AND OTHERS HAD FOUGHT THIS, NOT ONLY BECAUSE OF THEIR COMMITMENT TO US BUT BECAUSE SOME DOWNWARD PRESSURE ON PRICE STRUCTURE IN EUROPE WAS IN EUROPEAN INTEREST. HOWEVER, IT WOULD CERTAINLY HELP IF WE WOULD PLANT FEWER SOYBEANS AND MOVE THE PRICE UP. WHY DIDN'T I RECOMMEND THAT TO WASHINGTON? BECAUSE, I SAID, IN PROTEIN-SHORT WORLD WE FAVORED PRODUCTION AND ADVANTAGES FOR CONSUMERS. MOREOVER, OTHER PRODUCERS WOULD MOVE INTO MARKET IF WE RESTRICTED PRODUCTION. NOR WOULD WE WANT ANY PART OF A PROTEIN OR SOYBEAN CARTEL.

6. LARDINOIS THEN DESCRIBED HIS NON FAT MILK PROPOSAL AS TEMPORARY PALLIATIVE FOR THE DAIRY SURPLUS. HE SAID HE HAD KEPT HIS WORK TO SECRETARY BUTZ AND THE SOYBEAN STOCKPILE COMPONENT WAS THERE. HE ANTICIPATED THAT EC IMPORTS OF US SOYBEANS WOULD BE AT LEAST AS LARGE THIS YEAR AS LAST AND PERHAPS UP SOMEWHAT. HE HAD NOTED DICK BELL'S PRESS REMARKS AND HE UNDERSTOOD THE NECESSITY FOR THAT BUT HE TRUSTED SECRETARY BUTZ WOULD MODERATE THE US REACTION. I TOLD HIM THAT WE CONSIDERED THAT OUR GATT RIGHTS HAD BEEN CONFIDENTIAL

CONFIDENTIAL

PAGE 04 EC BRU 02429 01 OF 02 101741Z

INFRINGED AND THAT WE WOULD VIGOROUSLY PURSUE MATTER. IT SEEMED TO ME THAT HE HAD MISJUDGED STRENGTH OF THE US REACTION, UNDERESTIMATING POLITICAL AND ECONOMIC IMPORTANCE OF OUR SOYBEAN INTERESTS. I SAID ONE THING I DID NOT UNDERSTAND IN HIS APPROACH WAS WHY THE COMMISSION HAD NOT SOUGHT TO DEAL WITH UNDERLYING FORCES THAT HAD CREATED THE NFDM SURPLUS. HE REPLIED THAT THEY HAD AND THEY WOULD DO MORE NEXT YEAR. HE HAD WANTED NO PRICE INCREASES FOR DAIRY BUT HAD BEEN OVERRULED IN COMMISSION WHERE IT HAD BEEN ARGUED THAT A PRICE STANDSTILL WAS POLITICALLY IMPOSSIBLE FOR THE FRENCH. THE NINE MINISTERS LED BY FRENCH HAD FORCED EVEN HIGHER DAIRY PRICES THAN COMMISSION HAD PROPOSED. NEVERTHELESS, THE RESULTS WERE LESS THAN IN OTHER AREAS AND SMALLER THAN INFLATIONARY PRICE INCREASES OF DAIRY INPUTS. STILL, HE ACKNOWLEDGED

MY POINT WAS WELL TAKEN. HE FEARED DAIRY PROBLEM WOULD
GET WORSE BEFORE IT GOT BETTER. THERE WAS AN UNDERSTANDING
THAT IF THIS HAPPENED DAIRY PRODUCERS WOULD BE TAXED NEXT
YEAR WHICH WOULD DISCOURAGE DELIVERY OF MILK AND
ENCOURAGE ON-FARM CONSUMPTION.

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PAGE 01 EC BRU 02429 02 OF 02 101747Z

47

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INFO USDEL MTN GENEVA

C O N F I D E N T I A L SECTION 2 OF 2 EC BRUSSELS 02429

7. WITH WHAT I TOOK TO BE FEIGNED ANNOYANCE, BUT
WAS PERHAPS REAL, LARDINOIS ASKED WHY I COULDN'T
KEEP OUR AMBASSADORS IN NINE MEMBER COUNTRY CAPITALS
UNDER CONTROL. HE SAID THEY HAD ALL PROTESTED TO MEMBER
GOVERNMENTS ABOUT THE NFDM SCHEME, HAD ALL BEEN TOLD THE
GOVERNMENT APPROACHED AGREED WITH US BUT THAT THOSE
FELLOWS IN BRUSSELS WERE INSISTING. THIS DIDN'T HELP
EITHER THE COMMISSION OR THE US. DIDN'T WE REALIZE,
HE ASKED, THAT WHILE THE COMMISSION WAS NOT THE PLACE TO
TALK ABOUT EVERYTHING, IT WAS THE RESPONSIBLE EUROPEAN
AUTHORITY FOR AGRICULTURAL MATTERS. WE WOULD DO WELL
TO TALK IN BRUSSELS AND NOT IN CAPITALS. I REPLIED THAT
WHILE I PERSONALLY MIGHT LIKE TO TAKE HIS ADVICE, I WOULD
NOT EXPECT WASHINGTON TO DO SO, PARTICULARLY WHEN
THE COMMISSION, DESPITE OUR OBJECTIONS IN BRUSSELS, WENT
AHEAD WITH PROPOSALS WHICH WE VIEWED AS CONTRARY TO OUR
INTERESTS.

8. LARDINOIS THEN SAID HE WANTED TO DISCUSS SUGAR WITH ME AND HE SHOWED ME A LETTER FROM PERRY OF THE INTERNATIONAL SUGAR GROUP IN LONDON SUGGESTING CONVERSATIONS HERE IN ANTICIPATION OF NEGOTIATIONS LATE IN THE YEAR OF A NEW INTERNATIONAL SUGAR AGREEMENT. WHAT WAS THE CONFIDENTIAL

CONFIDENTIAL

PAGE 02 EC BRU 02429 02 OF 02 101747Z

US VIEW? I REPLIED THAT WE WOULD PARTICIPATE IN SUCH A COMMODITY AGREEMENT NEGOTIATION BUT THAT WHETHER OR NOT WE SIGNED AN AGREEMENT WOULD DEPEND ON THE RESULTS. HE ASKED IF WE WOULD BE INTERESTED IN A BILATERAL ARRANGEMENT UNDER WHICH WE WOULD BUY SPECIFIED AMOUNTS OF EUROPEAN SUGAR. I THOUGHT NOT AND ASKED IF THE COMMUNITY'S CONCERN FOR DEVELOPING COUNTRIES DID NOT EXTEND TO SUGAR. HE SAID UP TO A POINT. HE WOULD SOON RECEIVE 16 ASSOCIATED COUNTRY REPRESENTATIVES HERE WHO WOULD DEMAND 35 PERCENT INCREASE IN THE PRICES OF THEIR SUGAR SOLD IN THE EC MARKET. HE WOULD TELL THEM THEY COULDN'T GET A CENT MORE FOR THEIR SUGAR THAN EUROPEAN FARMERS, WHO WOULD RECEIVE ONLY AN 8 PERCENT INCREASE THIS YEAR. NOT ONLY WERE EUROPEAN SUGAR FARMERS MORE PRODUCTIVE BUT HE WAS NOT GOING TO PERMIT EUROPE TO BE DEPENDENT ON CUBAN-LED LDC SUGAR PRODUCER CARTEL THE WAY WE WERE ALL DEPENDENT ON OPEC. STILL, IF THE US WOULD JOIN INTERNATIONAL SUGAR TALKS, HE THOUGHT THE COMMUNITY SHOULD BE THERE TOO AND HE WOULD REPLY TO PERRY WELCOMING THE VISIT.

9. AS I LEFT LARDINOIS SAID THE US SHOULD DO SOME THINKING ABOUT LONG-TERM AGRICULTURAL SALES CONTRACTS. WE SHOULD TALK MORE OF THIS LATER. HE DID WANT US TO KNOW, HOWEVER, THAT HE INTENDED TO PURSUE THE KIND OF APPROACH HE HAD TAKEN WITH THE EGYPTIANS IN SEEKING TO NEGOTIATE LONG-TERM SUPPLY CONTRACTS WITH OTHER MIDDLE EASTERN STATES. HINTON

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